Telecommunications

Capitalising On Enterprise Segment Amid Saturated Mobile Landscape

MARKET WEIGHT
(Maintained)

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Highlights

- **The enterprise segment is expected to drive revenue expansion** among telco players as the saturated mobile market experiences a muted subscriber and ARPU outlook.
- **In the recent Budget 2026,** the government is allocating up to RM780m to expand fibre coverage to more than 2,700 locations under JENDELA 2. This will benefit telco infrastructure players and MNOs.
- **The sector trades at 8x EV/EBITDA, +2SD above the mean.** Maintain MARKET WEIGHT. Top picks: CelcomDigi, TIME and Axiata.

Analysis

- **Opportunities in enterprise segment.** As mobile competition remains stiff, telco players are pivoting towards the enterprise segment to capture opportunities arising from accelerating business digitalisation and the data centre boom. We see underlying demand for connectivity, ICT, cloud, and cybersecurity services into the next three years. This is driven by the gradual adoption of digitalisation among MNCs and the public sector. SMEs will likely trail given hefty upfront cost of IT systems. Cloud and GPU-as-a-service have also become key value-added products (TM and Maxis), while demand for data centre connectivity from enterprises and hyperscalers continues to rise (TM, TIME, and CelcomDigi). 1H25 enterprise solutions revenue remained robust among the MNOs, although this is partly offset by a decline in legacy messaging services.
- **A better 2H25 for enterprise segment.** TIME highlighted that there is opportunity within the cloud solution segment as the group expects contract renewals and customer migration to new subscription models in 2H25 to help offset a weak 1H25 contribution (-9% yoy). TM also saw a slowdown in its TM One revenue primarily due to project execution timing (1H25: -5% yoy), but has guided a strong project execution pipeline in 2H25.
- **Budget 2026: Fibre expansion under JENDELA 2.** In the recent Budget 2026, the government is allocating up to RM780m to expand fibre coverage to more than 2,700 locations under JENDELA 2. We expect telco infrastructure players, namely EDOTCO, OCK Group, YTL Communications and TM, to benefit from these network enhancement jobs.
- **Key events to look out for in 4Q25** include: a) EDOTCO benefitting from U Mobile's capex spend to roll out 5G network; b) gradual network expansion for TM and TIME, with single dwelling offerings being the main focus; and c) shareholding outcome of Digital Nasional (DNB) including the stake sale of MOF's 42% equity in DNB.

Sector Picks

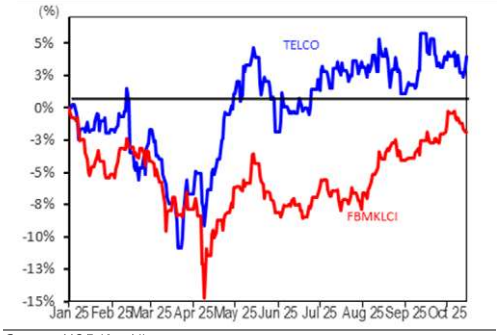
Company	Rec	Target Price (RM)	EV/EBITD A(x)	Div Yield (%)
CelcomDigi	BUY	4.30	9.8	3.2
TIME	BUY	6.00	11.0	5.6
Axiata	BUY	3.00	8.5	3.8

Source: UOB Kay Hian

Sector's 12-month EV/EBITDA

Source: Bloomberg, UOB Kay Hian

Sector's Ytd Share Price Performance



Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 23 Sep 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2025F (x)	PE 2026F (x)	EV/EBITDA 2025F (x)	EV/EBITDA 2026F (x)	Dividend Yield 2025F (%)	Dividend Yield 2026F (%)
Axiata Group	AXIATA MK	BUY	2.62	3.00	24,068	56.3	40.4	8.5	7.7	3.8	3.8
CelcomDigi	CDB MK	BUY	3.68	4.30	43,172	30.8	26.9	9.8	9.7	3.2	3.7
Maxis	MAXIS MK	BUY	3.80	4.20	29,773	19.8	18.6	8.9	8.2	4.6	5.0
Telekom Malaysia	T MK	HOLD	7.10	7.00	27,248	15.8	15.1	5.8	5.5	4.4	4.6
TIME dotCom	TDC MK	BUY	4.84	6.00	8,948	18.0	16.2	11.0	10.8	5.6	6.2

Source: Bloomberg, UOB Kay Hian

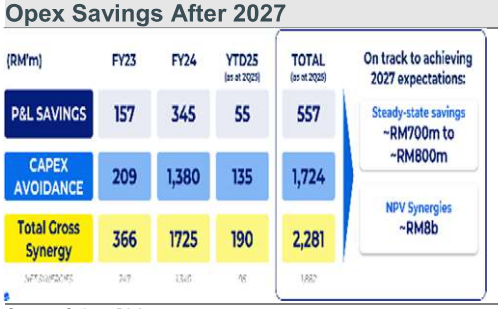
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** Current valuation of 8x EV/EBITDA (+2SD above mean) has largely factored in defensive earnings and a dividend yield of 4%. The sector has outperformed the FBMKLCI by 6% (telcos' +4% ytd vs FBMKLCI's -2% ytd). We maintain MARKET WEIGHT on the sector. **Top picks: CelcomDigi, TIME and Axiata.**
- **Key risks to our investment thesis** include: a) earnings erosion due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.
- **CelcomDigi (CDB MK/BUY/Target: RM4.30).** We expect merger synergies to yield projected cost savings of RM800m annually beyond 2027 (steady state), having sunk in elevated merger costs in 2024. Key re-rating catalysts include the monetisation of tower assets (selling to EDOTCO) and paying out special dividends in the near term.
- **TIME dotCom (TDC MK/BUY/Target: RM6.00)** offers a commendable three-year earnings CAGR of 11% for 2024-27, with a decent dividend yield of 6%. TIME targets to expand by an additional 250,000-300,000 home passes per annum. This is supported by its steady penetration rate in both greenfield and brownfield areas over the course of 2-3 years. The group reiterated its commitment in its balance sheet optimisation exercise and highlighted that debt (to a certain extent) may be a more optimal capital structure going forward.
- **Axiata (AXIATA MK/BUY/Target: RM3.00).** Against a backdrop of balance sheet deleveraging and operating cash flow discipline, we expect management to pay out a DPS of 10 sen for 2025. This translates to a dividend yield of 4%. Key re-rating catalysts include: a) stronger opco performance in the upcoming quarters; b) narrowed Link Net losses; and c) the listing of EDOTCO, allowing for share price discovery.

Sector Catalyst/Risk

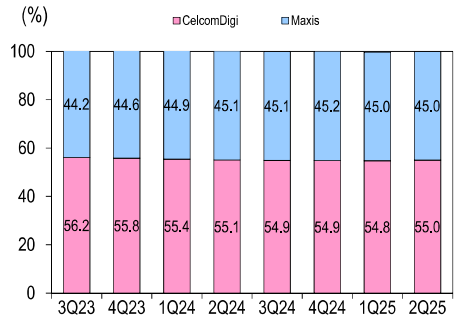
- **SACOFA appointed as the strategic partner for UMobile's Sarawak 5G network deployment.** SACOFA has entered into a 10-year partnership with UMobile to support the rollout of Malaysia's second 5G network in Sarawak. Sarawak's leading telecommunications infrastructure provider will be tasked with delivering fibre backhaul infrastructure services to U Mobile's 5G radio sites, supporting UMobile's ambition to achieve 80% coverage of populated areas nationwide by 2H26.
- **Eastel: An emerging market disruptor?** Eastel, a new mobile virtual network operator (MVNO) under Anchor Communications, is poised to make its market debut in 1Q26, positioning itself as a potential disruptor in Malaysia's saturated mobile market. The incoming MVNO has signed a five-year wholesale access agreement to patron UMobile's next-generation 5G infrastructure and 4G network for data, voice and SMS (including international direct dialling, roaming and mobile number portability services). Eastel aims to capture opportunities within Malaysia's Gig and Creator Economy by providing tailored, high-performance connectivity solutions that support niche, data-intensive applications for this growing community. To date, UMobile has successfully achieved 54.9% coverage of populated areas countrywide and aims to reach 80% by 2H26.

CelcomDigi: RM700m-800m Steady-State Opex Savings After 2027



Source: CelcomDigi

Telco Revenue Market Share

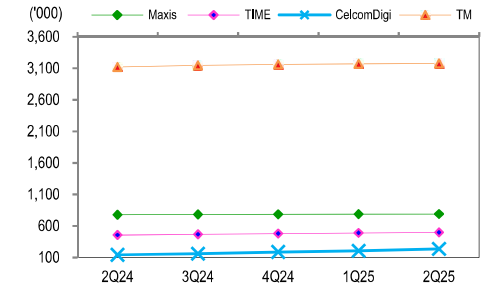


Source: Respective companies

Telco EBITDA Market Share

Source: Respective companies

Home Fibre Subscribers



Source: Respective companies

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